HOUSING MARKET OUTLOOK
Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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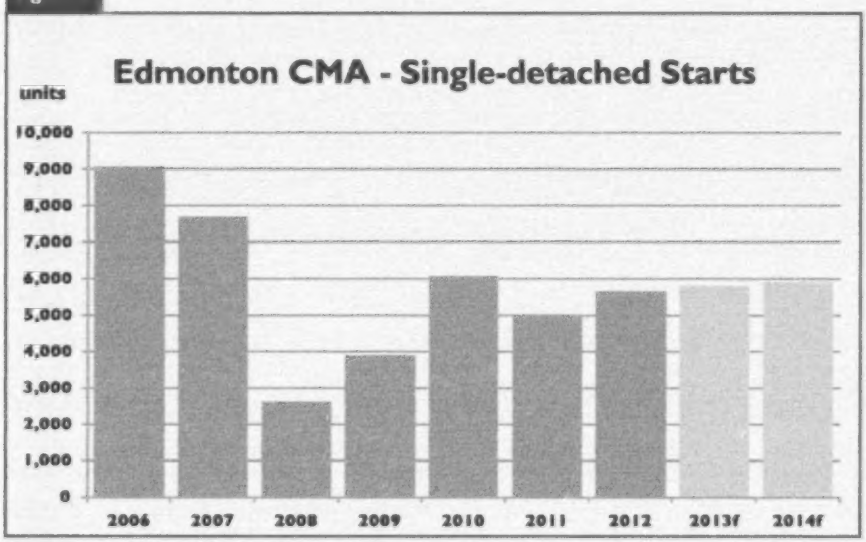
NEW HOME MARKET

Housing starts to moderate in 2013

After a 38 per cent gain in 2012, new home construction across the Edmonton Census Metropolitan Area (CMA) will moderate. Total housing starts are expected to reach 12,300 units in 2013, representing a decrease of four per cent from 12,837 units in 2012. The moderation will continue into 2014 as total starts reach 11,800 units. The reduction over the next two years can be attributed to a slower pace of job growth, moderating net migration, and heightened supply levels, particularly in the multi-family market.

While modestly weaker economic fundamentals will contribute to a moderation in housing starts, the

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 26, 2013.

[2]Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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region's home builders will see new home construction above the preceding 10-year average of 11,205 units from 2003 to 2012. Low mortgage rates will keep first-time buyers interested in entry-level homes. Meanwhile, strong wage growth and low mortgage rates will allow existing owners to upgrade to a new home. Demand will also come from some migrants who arrived in the last couple of years moving out of rental and into homeownership.

Single-detached starts to increase gradually in 2013 and 2014

Following a 13 per cent gain in 2012, single-detached starts in the Edmonton CMA are on pace to reach 5,800 units in 2013, representing a 2.5 per cent increase from the previous year. During the first three months of 2013, single-detached starts totalled 1,125 units, nearly four per cent higher than corresponding levels in 2012. While positive employment growth and an elevated level of net-migration will support demand for new single-detached homes, moderate price growth in the resale market will inhibit the pace of trade-up activity. Despite low mortgage rates, first time buyers may choose a resale home or a new multi-family unit instead of a new single-detached home due to their relative price advantage.

Heightened supply levels will also slow the rise in single-detached construction moving forward. Nonetheless, positive employment growth and low mortgage rates will continue to support new home demand in 2014, as will net migration. Migrants who arrived in previous years will also continue to move out from rental and into homeownership. Foundations will be poured for 5,900 single-detached homes next year, representing an increase of less than two per cent from the level in 2013.

A modest decline in absorptions combined with a higher level of completions contributed to an increase in the inventory of complete and unabsorbed units, many of which will compete with new projects. Builders were also focusing on completing their existing projects, which has been on the rise as a result of the gain in single-detached starts in 2012. The inventory of single-detached homes stood at 646 units in March 2013, up from 618 units in the same month a year earlier and the second-highest total in nearly four years. The number of single-detached units under construction, meanwhile, was up 13 per cent in March 2013 compared to the same month in 2012, increasing the risk of higher inventories moving forward.

New home prices to post modest gains in 2013

Following one per cent increase in 2012, modest price growth in new single-detached prices will continue into 2013. The absorbed price of an average new single-detached home is expected to grow by less than one per cent this year, reaching $518,000. The modest growth is a result of minimal cost pressures and compositional factors. Statistics Canada's New House Price Index (NHPI), which tracks land and labour costs for building a single-detached home, increased by only one per cent in February 2013 compared to the same month in 2012. Meanwhile, the share of absorbed homes priced between $450,000 and $549,000 climbed to 28 per cent in the first quarter of 2013 from 23 per cent in the same quarter in 2012. At the same time, the share of high-end units priced above $650,000 fell from 16 per cent during the first three month of 2012 to 12 per cent in 2013.

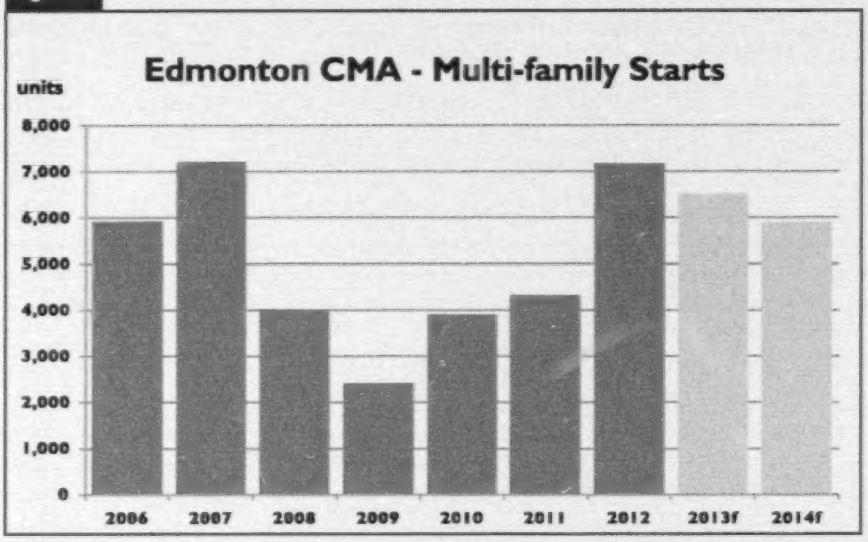
In 2014, price pressures will increase at a growing rate as input costs edge higher. Following a 1.5 per cent gain in 2013, the NHPI is expected to rise by two per cent in 2014 as a result of Edmonton's tight labour market contributing to higher wages. Given the comparatively weaker gain in NHPI in 2013 and the lag to absorption, the average absorbed price of a single-detached home will increase by only 1.2 per cent in 2014 to $524,000.

Multi-family starts expected to moderate in 2013

After a 66 per cent increase in 2012, multi-family starts in 2013 will moderate to a more sustainable level. Construction of multi-family units in the Edmonton CMA, which consist of semi-detached, row, and apartment units will decrease to 6,500 units, representing a nine per cent reduction from the 7,179 units started in 2012.

While a positive influx of migrants will continue to support demand for both new rental and multi-family housing, the rising number of multi-family units currently under construction will result in a slower pace of new home starts in the coming months. In March 2013, the number of multi-family units under various phases of construction increased to 8,193 units, 41 per cent higher than the 5,800 units recorded in 2012.

Figure 2

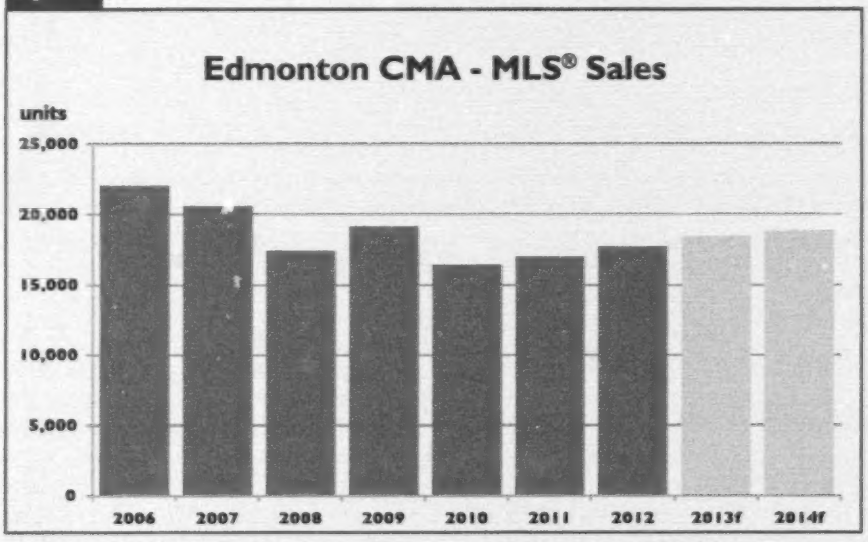


Source: CMHC, CMHC Forecast (f)

Another reason for moderating multi-family construction is the expected increase in inventories, which builders may have to sell off before they can move to other projects. Rising inventories for rental tenure have thus far slowed the pace of rental construction. However, during the first quarter of 2013, increased absorption and decreased inventory of ownership multi-family units prompted many builders to launch new projects for ownership or condominium tenure, resulting in a 53 per cent jump in overall multi-family construction. The extent of this gain will dissipate moving forward as the market competes with comparatively higher numbers over the balance of 2013. Meanwhile, with completions expected to outpace absorptions in the coming months, inventory levels will start to grow. Eventually, builders will have to slow the pace construction in order to manage inventory levels.

With higher inventories anticipated in 2014, multiple dwelling starts will continue to moderate despite movement from rentals to entry-level ownership homes. CMHC expects multi-family starts to decrease to 5,900 units in 2014, representing a nine per cent decrease from the level in 2013.

Figure 3



Source: CREA, CMHC Forecast (f)

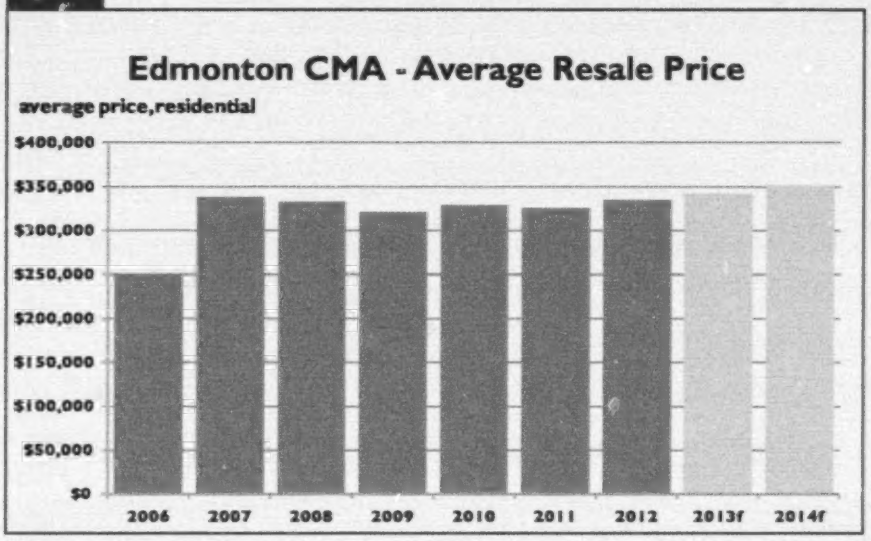
RESALE MARKET

Demand for existing home to increase

Demand for resale homes in Edmonton will continue to increase in 2013. Total residential MLS® sales are on pace to increase by four per cent, reaching 18,400 units. To the end of March, existing home sales totalled 4,021, six per cent higher than the previous year. An elevated level of in-migration, continued job creation, a tight rental market, and persistently low mortgage rates are helping bolster demand. Some migrants who arrived in 2012 and temporarily renting will also look to become homeowners this year. In 2014, resale activity will continue to strengthen, with total MLS® sales increasing by two per cent to 18,800 units. Rising prices will result in equity gains, encouraging current owners to move up in the market. Rising prices will also encourage some fence-sitters to make a move into the market.

While residential MLS® sales in the first quarter of 2013 increased by six per cent from the first quarter of 2012, listings continued to decline with some potential sellers waiting

Figure 4



Source: CREA, CMHC Forecast (f)

for prices to pick up further before they list their homes. There were 7,295 new listings posted in the first three months of 2013, down from 8,311 in the same quarter last year. Combined with the increase in sales, active listings declined to an average of 5,502 units per month from January to March of 2013, down from the average of 6,203 active listings per month in the first three months of 2012. With sales increasing and active listings declining, the sales-to-active listings ratio in March 2013 moved further into balanced market territory, giving sellers more bargaining power compared to previous years when buyers had the upper hand.

Average resale price to rise in 2013

With market conditions improving for sellers, the average resale price in the first quarter of 2013 rose from a year earlier. The average MLS® residential price in the first quarter was $338,157, up 2.7 per cent from $329,382 in the first three months of 2012. For all of 2013, an average resale home is expected to be sold for $342,000, representing an increase of 2.3 per cent from 2012. In 2014, there will be more buyers in the market relative to supply, giving the sellers some additional advantage. With further strengthening, the average resale price in Edmonton will increase by 2.6 per cent next year, reaching $351,000.

The composition of resale home sales in the Edmonton CMA is also providing some support for average price growth. During the first quarter of 2013, the share of homes sold between $450,000 and $699,000 rose to 23 per cent in the first quarter of 2013, up from 17 per cent in 2012. During the same period, the share of single-detached homes selling for more than $700,000 increased to 4.6 per cent of the market, up from 2.7 per cent in 2012. Employment growth in many of the higher-paying industries provided some prospective buyers an opportunity to spend more on higher-end homes.

Although demand for single-detached homes in the higher-price ranges increased, homes in the mid-price ranges continued to be the most popular in the CMA. In the first quarter of 2013, homes sold between $300,000 and $449,000 accounted for 55 per cent of the total sales during the first three months of 2013. The share of single-detached homes sold below $299,000, represented 18 per cent of the total year-to-date sales.

RENTAL MARKET

Low vacancies lift average rents

In October 2012, the apartment vacancy rate in the Edmonton CMA decreased to 1.7 per cent, down from 3.3 per cent a year prior. Demand for rental accommodation was driven by increased job creation and a record number of newcomers to the region. Looking forward, while the anticipated level of migration in 2013 will support rental demand, overall migration will moderate from the heightened level experienced last year. Meanwhile, movements of existing renters to homeownership will result in more vacant units. In addition, the anticipated increase in rental completions will also put some upward pressure on rental vacancies. By this October, vacancies in rental apartments will edge up to 1.9 per cent with further upward movement to 2.1 per cent by the fall of 2014. Despite the increases, the average vacancy rate in 2013 and 2014 will remain below historical standards.

Another supporting factor to our outlook for the slightly higher rental apartment vacancy rates is the increased supply of rental condominiums competing for

Figure 5

Source: CMHC, CMHC Forecast (f)

renters. With increasing rents and strong demand for higher-end rentals in Edmonton, many saw an investment opportunity and offered their condominium units for rent. For example, the universe of rental condominiums rose from less than 4,000 units in 2006 to almost 13,000 units in 2012. Despite the increase in supply, renters in the CMA continued to occupy these units as they became available. In 2012, the average rental vacancy rate for condominium units decreased to 2.5 per cent from the 3.8 per cent recorded in 2011.

Apartment rents expected to rise

With apartment vacancies expected to remain low over the forecast period, rental rates across the Edmonton region will continue to grow. The completion of newly-constructed units will also add to the overall average. In October 2012, an average two-bedroom apartment was rented for $1,071 per month compared with $1,034 in the previous October survey. By the fall of this year, an average two-bedroom unit will rent for close to $1,110. By October 2014, two-bedroom apartment rents should average near $1,150.

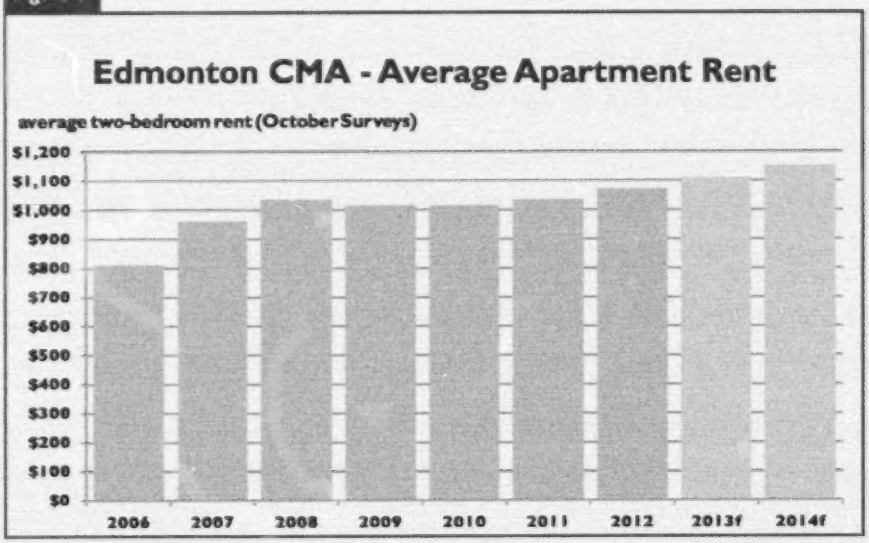
With high occupancy levels, property managers will also require fewer incentives this year to attract tenants. The proportion of structures offering incentives decreased from nearly 10 per cent in October 2011 to below four per cent in October of 2012. In 2013, CMHC expects few landlords will be offering any incentives to attract new tenants.

ECONOMIC OUTLOOK

Employment growth will continue to support housing demand

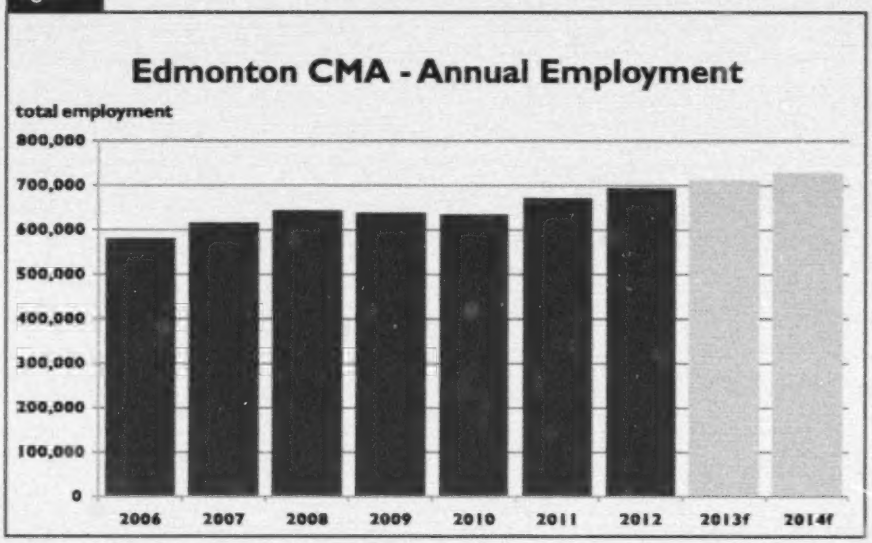
Following a 3.3 per cent gain in 2012, employment growth in the Edmonton CMA is expected to moderate over the next two years. Total employment on a seasonally adjusted basis in the first quarter of 2013 trended down from the last three months of 2012. However, employment levels on an unadjusted basis were still higher compared to the same quarter in 2012. While job creation continues be strong in Edmonton's construction and manufacturing sectors that are supplying infrastructure, equipment, and services for the energy sector, the retail sector has also been generating jobs thanks to strong growth in

Figure 6



Source: CMHC, CMHC Forecast (f)

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

income and net-migration during the past few years. Full-time employment, a key driver for housing demand, has been growing and offsetting the losses in part-time positions in the past few months. As a result, the motivation for some prospective buyers to become homeowners will strengthen in the months to come, providing support for both resale home sales and new home starts.

With continued demand for labour, Edmonton's labour market outperformed many other areas in Canada. The unemployment rate on a seasonally adjusted basis averaged 4.2 per cent in the first quarter of 2013, down from 4.5 per cent in the final quarter of 2012. A strong appetite for labour in an environment where the unemployment rate declined contributed to higher wages in the Edmonton CMA. Hiring in the manufacturing and construction sector also supported the increase in average earnings, as these two sectors tend to pay more than other sectors, on average. Statistics Canada's Average Weekly Earnings in the Edmonton CMA moved up seven per cent in the first quarter of 2013 from the corresponding period in 2012.

Edmonton's labour market will continue to expand in both 2013 and 2014, despite a slower rate compared to 2012. The number of people working across the Capital region will rise by close to 2.7 per cent and 2.4 per cent in 2014. The unemployment rate will average 4.5 per cent this year and 4.6 per cent in 2014, helping to attract more migrants into the region.

The favourable labour market conditions expected over the forecast period will continue to entice more newcomers from parts of the country where economic growth is slower, most notably central and eastern Canada. A growing number of international migrants will also help boost population growth. Net migration into Greater Edmonton during the 12-month period ending June 2012 surpassed the previous peak in 2006, reaching 24,928 persons. While CMHC is not expecting another record high in 2013, total net migration will remain robust with 17,000 persons this year and 17,500 in 2014.

MORTGAGE RATE OUTLOOK

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Forecast Summary Edmonton CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	6,062	5,017	5,658	5,800	2.5	5,900	1.7
Multiples	3,897	4,315	7,179	6,500	-9.5	5,900	-9.2
Starts - Total	9,959	9,332	12,837	12,300	-4.2	11,800	-4.1
Average Price ($):							
Single-Detached	490,128	509,059	514,259	518,000	0.7	524,000	1.2
Median Price ($):							
Single-Detached	429,900	448,400	460,000	467,000	1.5	477,000	2.1
New Housing Price Index (% chg.)	-0.8	0.9	0.9	1.5	-	2.0	-
Resale Market							
MLS® Sales	16,403	16,963	17,641	18,400	4.3	18,800	2.2
MLS® New Listings	33,131	31,719	31,410	31,000	-1.3	31,000	0.0
MLS® Average Price ($)	328,803	325,595	334,318	342,000	2.3	351,000	2.6
Rental Market							
October Vacancy Rate (%)	4.2	3.3	1.7	1.9	-	2.1	-
Two-bedroom Average Rent (October) ($)	1,015	1,034	1,071	1,110	-	1,150	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	633,400	671,000	693,200	711,700	2.7	728,800	2.4
Employment Growth (%)	-0.7	5.9	3.3	2.7	-	2.4	-
Unemployment rate (%)	6.7	5.4	4.7	4.5	-	4.6	-
Net Migration [1]	10,436	12,078	24,928	17,000	-31.8	17,500	2.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 26, 2013.

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